

Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
Year Ended September 30, 2003

1. ORGANIZATION:

The Redevelopment Agency of the City of Huntington Beach (the Agency) is a blended component unit of the City of Huntington Beach (the City). The City Council is the governing board of the Agency. The Agency was formed by ordinance in 1967 to encourage private development of areas that are no longer economically sustainable by the private sector. The Agency adopts project areas, by public votes, which qualify under the California Health and Safety Code.

The following project areas have been adopted:

<u>Project Area</u>	<u>Year Adopted</u>	<u>Status</u>
Main/Pier	1982 (amended in 1983)	Merged into Huntington Beach Project Area #1
Talbert/Beach	1982	Merged into Huntington Beach Project Area #1
Oakview	1982 (amended in 1989)	Merged into Huntington Beach Project Area #1
Yorktown/Lake	1982	Merged into Huntington Beach Project Area #1
Huntington Center	1984	Merged into Huntington Beach Project Area #1
Huntington Beach Project Area #1	1997	Created from five existing project areas
Southeast Coastal Project Area	2002	Began operations in 2002 (no reportable financial transactions)

The Agency's project area requires that 20% of tax increment revenue be used to promote affordable housing citywide.

Redevelopment Agency of the City of Huntington Beach
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

a. Government – Wide Financial Statements:

The Agency's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental activities for the Agency accompanied by a total column. Fiduciary activities of the Agency are not included in these statements. These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The statement of activities demonstrates the degree with which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Indirect expenses are allocated to the various functions based on a proportionate use of services. The types of transactions reported as program revenues for the Agency are reported in three categories: 1) charges for services, 2) operating grants and other contributions, 3) capital grants and other contributions. Taxes and other items not properly included among program revenues are reported as general revenues.

Government-wide financial statements do not provide information by fund or account group. They simply distinguish between governmental and business activities. All of the Agency's activities are governmental activities. The Agency's Statement of Net Assets includes both current and non-current assets and liabilities. In prior years, the non-current assets and liabilities were recorded in the General Fixed-Assets Account Group and the General Long-Term Debt Account Group, which are no longer reported.

Financial Statement Classification

In the Government-Wide financial statements net assets are classified in the following categories:

Invested In Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

a. Government – Wide Financial Statements

Restricted Net Assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. This category presents restrictions placed on the categories of Capital Projects, Debt Service, and Specific Projects and Programs as established by the City Council.

Unrestricted Net Assets – represent the net assets of the Agency, not restricted for any project or other purpose.

b. Fund Financial Statements:

In the Funds financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various designations are established by actions of the City Council and Management and can be increased, reduced or eliminated by similar actions.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property tax, other taxes, investment income, and other income. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

All Agency funds are reported as major funds:

- Huntington Beach Project Area #1 (Capital Projects Fund)
- Low-Income Housing Fund (Capital Projects Fund)
- Debt Service Fund

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Governmental Fund Financial Statements:

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The Agency presents all major funds that met those qualifications.

c. Investment Income Allocation:

The City of Huntington Beach allocates investment income to funds based on month-end cash balances. Since the Agency pools its cash with the City (see Note 3), the Agency receives monthly allocations of investment income.

d. Special Agency Accounting:

The Agency follows the special accounting procedures required by the California Health and Safety Code. These procedures comply with generally accepted accounting principles for governmental agencies.

e. Self-Insurance:

The Agency is self-insured through the City of Huntington Beach. All required information is included in the City of Huntington Beach Comprehensive Annual Financial Report for the year ended September 30, 2003.

f. Capital Assets:

Capital assets, which include property, plant, equipment, and infrastructure, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets have an acquisition cost of \$5,000 or greater and a useful life of two years or more. The Agency records all purchased capital assets at historical cost (where historical records are available) and at estimated historical cost where no historical records exist. The Agency's only capital asset is land.

Redevelopment Agency of the City of Huntington Beach
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

g. Interfund Transactions:

As a general rule, interfund transactions have been eliminated from the government-wide financial statements. These interfund transactions would distort the direct costs and program revenues for the various functions

h. Long-Term Obligations:

In the government-wide and proprietary fund financial statements, long-term obligations are recorded as liabilities in the applicable governmental activities, business type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the debt for all issues after October 1, 2001. Premiums and discounts for debt issued before October 1, 2001 are not recorded or amortized.

In the governmental fund financial statements, bond discounts and premiums are recognized as an other financing source or use. Issuance costs are recorded as a current year expenditure.

i. Employee Compensated Absences:

The City records the cost of all accumulated and unused leave time (vacation, sick, comp) as a liability when earned in the government-wide, proprietary, and fiduciary fund financial statements. Liabilities for these amounts in the governmental funds are only recorded if they have matured (employee resignations or retirements).

Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
Year Ended September 30, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

j. Property Tax Revenue:

Property tax in California is levied according to Article 13-A of the California Constitution. The basic levy is a countywide-levy of one percent of total assessed valuation and is allocated to county governments, school districts, cities and special districts. Additional levies require two-thirds approval by voters and are allocated directly to the specific government.

In the government-wide financial statements, property tax is recorded when earned, regardless of when levied, due, or received. In the fund financial statements, property tax revenue is recognized in the fiscal year levied provided that revenue is collected in time to pay current year liabilities. Deferred property tax revenue represents property taxes related to the current fiscal year that are collected more than 60 days after the fiscal year end. Since the Agency's fiscal year differs from the County's property tax year, there is a difference between the property tax revenue recorded on the fund financial statements and the government-wide financial statements which is noted as a reconciling item in both the Reconciliation of the Statements of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities and the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets.

The County acts as a collection agent for property tax for all of the local governmental units. Property taxes are normally collected twice per year. The property tax calendar is as follows.

- Lien Date-January 1 - Prior Fiscal Year
- Levy Date-July 1 - Prior Fiscal Year
- Due Date, First Installment - November 10
- Due Date, Second Installment - February 10
- Delinquent Date, First Installment - December 10
- Delinquent Date, Second Installment - April 10

Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
Year Ended September 30, 2003

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

k. Property Tax Revenue:

The taxes are paid to the local governments periodically during the year. Below are the dates of the payments from the County:

- | | |
|----------------------------------|----------------------|
| • Payments of First Installment | November to December |
| • Balance of First Installment | February 1 |
| • Payments of Second Installment | March to April |
| • Balance of Second Installment | July 26 |

k. Estimates:

The accompanying financial statements require management to make estimates and assumptions that effect certain report amounts and disclosures. Actual results could differ from those estimates.

3. CASH AND INVESTMENTS:

The Agency's cash and investments are pooled with the City of Huntington Beach. The Agency holds a proportionate interest in the amount of \$10,624,000. The Restricted Cash with Fiscal Agent, totaling \$2,503,000 (which represents both fair and book value) are uninsured and unregistered. For further information such are credit risk and categorization of the cash and investments, see the City of Huntington Beach's Comprehensive Annual Financial Report for the fiscal year ended September 30, 2003. The City early-implemented GASB 40, *Deposit and Investment Risk Disclosures*.

4. TAX INCREMENT REVENUE AND FINANCING:

The Agency's primary source of revenue is tax increment. Tax increment revenue is computed as follows:

- When a project area is adopted, the County of Orange Auditor/Controller freezes all of the existing property's assessed value. The County distributes taxes received from this frozen valuation to the various governmental agencies as if the project area did not exist.
- The Agency receives 100% of taxes (not including certain pass-through agreements) received from increases in assessed valuation due to new construction, resale of existing property and annual increases allowed under Article 13-A of the California Constitution.

The increment is used to repay the debt of the Agency (see Note 6).

Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
Year Ended September 30, 2003

5. CAPITAL ASSETS:

The changes in capital assets (land) during the year were (in thousands):

Balance, October 1, 2002	\$	17,177
Additions/Retirements		<u>(806)</u>
Balance, September 30, 2003	\$	<u>16,371</u>

6. LONG-TERM DEBT:

The changes in Agency long-term debt during the year were (in thousands):

	Balance October 1, 2002	Additions	Retirements	Balance September 30, 2003	Amount Due within One Year
DEBT TO CITY OF HUNTINGTON BEACH:					
Advances from General Fund	\$ 26,642	\$ -	\$ (5,248)	\$ 21,394	\$ -
Advances from Sewer Fund	202	7	-	209	-
Advances from Drainage Fund	487	17	-	504	-
Advances from Water Fund	3,019	109	-	3,128	-
Advances from Gas Tax Fund	1,280	20	(1,300)	0	-
Advances from Capital Improvement Fund	465	18	-	483	-
Deferred Development Fees:				-	-
Park Acquisition and Development Fund	533	18	(243)	308	-
Sewer Fund	125	5	-	130	-
Drainage Fund	134	5	-	139	-
Deferred Payment on Land Purchases from City:				-	-
General Fund	64,978	2,356	(3,556)	63,778	-
Park Acquisition and Development Fund	4,012	146	-	4,158	-
Less Amount Considered Possibly to not be Repaid	(64,957)	64,957		-	-
Total Debt - City of Huntington Beach	36,920	67,658	(10,347)	94,231	-
OTHER DEBT					
Notes Payable	293	500	(293)	500	-
Mayer Disposition and Development Agreement	11,280	1,184	(731)	11,733	-
1999 Refunding Tax Allocation Bonds	9,470	-	(310)	9,160	320
2002 Tax Allocation Refunding Bonds	20,900	-	(685)	20,215	750
Section 108 Loan	5,520	-	(180)	5,340	195
Employee Compensated Absences	97	-	(18)	79	-
Total Other Debt	47,560	1,684	(2,217)	47,027	1,265
Total Agency Debt	\$ 84,480	\$ 69,342	\$ (12,564)	\$ 141,258	\$ 1,265

Redevelopment Agency of the City of Huntington Beach
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Year Ended September 30, 2003

6. LONG-TERM DEBT (CONTINUED):

a. Advances from General Fund:

Year(s) debt incurred	1985 to 1996
Interest rate	3.63%
Principal amount	\$18,153,000
Accrued interest	\$3,256,000
Purpose of debt	Operating, administrative and capital expenditures
Security for debt	Operative Agreement with City
Repayment terms	None

b. Advances from City's Sewer Fund:

Year(s) debt incurred	1989
Interest rate	3.63%
Principal amount	\$131,000
Accrued interest	\$78,000
Purpose of debt	Sewer Construction
Security for debt	Operative Agreement with City
Repayment terms	None

c. Advances from City's Drainage Fund:

Year(s) debt incurred	1987
Interest rate	3.63%
Principal amount	\$250,000
Accrued interest	\$254,000
Purpose of debt	Drainage Construction
Security for debt	Operative Agreement with City
Repayment terms	None

Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
Year Ended September 30, 2003

6. LONG-TERM DEBT (CONTINUED):

d. Advances from City's Water Fund:

Year(s) debt incurred	1986 and 1987
Interest rate	3.63%
Principal amount	\$1,138,000
Accrued interest	\$1,990,000
Purpose of debt	Water Construction
Security for debt	Operative Agreement with City
Repayment terms	None

e. Advances from City's Capital Improvement Fund:

Year(s) debt incurred	1989
Interest rate	3.63%
Principal amount	\$200,000
Accrued interest	\$283,000
Purpose of debt	Capital Expenditures
Security for debt	Operative Agreement with City
Repayment terms	None

Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
Year Ended September 30, 2003

6. LONG-TERM DEBT (CONTINUED):

f. Deferred Development Fees:

Year(s) debt incurred	1984
Interest rate	3.63%
Principal amount	\$339,000
Accrued interest	\$238,000
Purpose of debt	Developer Incentive
Security for debt	Operative Agreement with City
Repayment terms	None

g. Deferred Payment on Land Purchases from City's General Fund:

Year(s) debt incurred	1983 to 1992
Interest rate	3.63% (current fiscal year)
Principal amount	\$32,833,000
Accrued interest	\$30,924,000
Purpose of debt	Parcel consolidation and development
Security for debt	Operative Agreement with City
Repayment terms	None

During the year the Agency determined that it could repay the entire debt owed to the City of Huntington Beach. Prior to this year, \$64,957,000 had not been recorded as a debt payable. Also, \$3,556,000 of accrued interest on this debt was forgiven by the City of Huntington Beach. Below is a schedule of the changes in this debt amount:

Debt - September 30, 2002	\$ 64,978
Other Adjustments	(21)
Less Uncollectible Amounts	<u>(64,957)</u>
Debt - September 30, 2002	-
Amount now Considered Collectible	64,957
Debt forgiven by City of Huntington Beach	(3,556)
Accrued Interest 2002-2003	<u>2,356</u>
Debt September 30, 2003	<u><u>\$ 63,757</u></u>

Redevelopment Agency of the City of Huntington Beach
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6. LONG-TERM DEBT (CONTINUED):

h. Deferred Payment on Land Purchases from City's Park Acquisition and Development Fund:

Year(s) debt incurred	2003
Interest rate	3.00%
Principal amount	\$500,000
Accrued interest	0
Purpose of debt	Affordable housing
Security for debt	Note with homeowner
Repayment terms	Deferred for 10 yrs

i. Notes Payable:

Year(s) debt incurred	1984
Interest rate	3.63%
Principal amount	\$1,741,000
Accrued interest	\$2,416,000
Purpose of debt	Emerald Cove Land
Security for debt	Operative Agreement with City
Repayment terms	None

j. Mayer Disposition and Development Agreement:

In fiscal year 1996-97, the Agency entered into a disposition and development agreement with Robert Mayer Corporation (Corporation) concerning additional development adjacent to the Waterfront Hotel. Under the agreement, the Corporation would advance payments for the project costs with the Agency reimbursing up to \$16,750,000 of the costs. As of September 30, 2003, the Agency obligation under the agreement amounted to \$11,733,000. Project-generated revenues as available will repay these amounts over the time needed to fully amortize the advance.

Redevelopment Agency of the City of Huntington Beach
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6. LONG-TERM DEBT (CONTINUED):

k. 1999 Tax Allocation Refunding Bonds:

Year(s) debt incurred	1999
Interest rate	3.00% to 5.05%
Original principal amount	\$10,835,000
Remaining principal amount	\$9,470,000
Purpose of debt	Prepay Agency's 1992 Loans to Public Financing Authority
Security for debt	Redevelopment Agency Tax Increment, excluding Low- Income Housing Amounts
Repayment terms	Principal, August 1 st , Interest, February 1 st and August 1 st

Debt service requirements to maturity are as follows (in thousands):

Year Ending September 30	Principal	Interest	Total
2004	\$ 320	\$ 278	\$ 598
2005	335	245	580
2006	350	214	564
2007	365	171	536
2008	380	163	543
2009-2013	2,145	746	2,891
2014-2018	2,705	597	3,302
2019-2023	2,200	406	2,606
2024	360	53	413
Total	\$ 9,160	\$ 2,873	\$ 12,033

Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
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6. LONG-TERM DEBT (CONTINUED):

I. 2002 Tax Allocation Refunding Bonds:

Year of Issuance	2002
Type of Debt	Tax Allocation Refunding Bonds
Original Principal Amount	\$20,900,000
Security	Tax Increment
Interest Rates	2.00% to 5.00%
Interest Payment Dates	February 1 st and August 1 st
Principal Payment Dates	August 1 st
Purpose of Debt	Prepay Agency's 1992 Loans to Public Financing Authority and fully defease 1992 Public Financing Authority bonds

Debt service requirements to maturity are (in thousands):

Year Ending September 30,	Principal	Interest	Total
2004	\$ 750	\$ 860	\$ 1,610
2005	765	841	1,606
2006	790	822	1,612
2007	815	798	1,613
2008	845	771	1,616
2009-2013	4,760	3,372	8,132
2014-2018	5,905	2,283	8,188
2019-2023	4,805	875	5,680
2024	780	39	819
Total	\$ 20,215	\$ 10,661	\$ 30,876

m. Section 108 Loan

Year of Issuance	2000
Type of Debt	Loan from Federal Government
Original Principal Amount	\$6,000,000
Remaining Principal Amount	\$5,520,000
Security	Loan Agreement with Federal Government
Interest Rates	7.7%
Interest Payment Dates	February 1 st and August 1 st
Principal Payment Dates	August 1 st
Purpose of Debt	Capital Improvements

Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
Year Ended September 30, 2003

6. LONG-TERM DEBT (CONTINUED):

m. Section 108 Loan

Debt service requirements to maturity are (in thousands):

Year Ending September 30	Principal	Interest	Total
2004	\$ 195	\$ 407	\$ 602
2005	210	394	604
2006	220	378	598
2007	235	363	598
2008	255	345	600
2009-2013	1,550	1,422	2,972
2014-2018	2,155	740	2,895
2019	520	42	562
Total	<u>\$ 5,340</u>	<u>\$ 4,091</u>	<u>\$ 9,431</u>

n. Employee Compensated Balances:

There is no fixed repayment to pay the compensated absences liability totaling \$79,000 at year-end.

7. RETIREMENT PLAN INFORMATION:

The Agency is a component unit of the City of Huntington Beach. For retirement purposes, all Agency employees are considered to be employees of the City of Huntington Beach. No separate valuations are made for the Agency. All retirement information for the City as a whole is included in the City of Huntington Beach Comprehensive Annual Financial Report.

8. AGENCY AGREEMENTS:

a. Pass-Through Agreements:

The Agency entered into various "pass-through" agreements with local governmental agencies where a portion of tax increment is paid to the individual agencies. The amount payable at year-end was \$337,000.

Redevelopment Agency of the City of Huntington Beach
Notes to Financial Statements
Year Ended September 30, 2003

9. AGENCY AGREEMENTS (CONTINUED):

b. Fountains Huntington Beach, LLC:

On January 2, 2002 the Redevelopment Agency entered into an Owner Participation Agreement with Fountains Huntington Beach, LLC, to provide \$2 million to meet the cost of providing and maintaining 80 affordable housing units for a period of 60 years. At year-end no liability had been incurred. The expectation is that the amount will be disbursed in fiscal year 2003-2004.

d. CIM Group, LLC – Disposition and Development Agreement:

In June 1999, the Redevelopment Agency entered into a disposition and development agreement with the CIM Group, LLC to allow development of a hotel, retail and restaurant improvements and a public parking facility. The project costs are to be paid initially by the developer with the Agency reimbursing the developer a maximum of \$7.9 million pursuant to a Third Implementation Agreement approved on October 21, 2002.

d. Huntington Center:

During the year the Redevelopment Agency entered into a Disposition and Development Agreement with a private developer regarding the development of the Huntington Center Mall. This agreement will require payments by the Agency pending certain actions by the developer. At year-end, no Agency liability had been incurred.

e. Southeast Coastal Redevelopment Project:

On 9/2/03 the Redevelopment Agency Approved a Cooperation Agreement Regarding Capital Improvements in the Southeast Coastal Redevelopment Project with the City. This agreement commits the Redevelopment Agency to reimburse the City for a number of capital improvement projects to be undertaken as part of the Five Year Capital Improvement Program in the Southeast Redevelopment project area starting in FY 2003/04 as they are undertaken.

Redevelopment Agency of the City of Huntington Beach
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10. NOTES RECEIVABLE:

a. Owner Participation Agreement – Abdelmuti:

In 1991, the Agency agreed to assist a private business in the demolition and the construction of a new building. The Agency agreed to make public improvements totaling \$500,000 and to loan the business \$3,126,000 for 15 years at 7% interest to make building improvements. At year-end the balance of the loan was \$1,781,000.

b. Deferred Loans – Developers:

The Agency has made loans available to developers to construct or rehabilitate certain facilities under deferred loan agreements. These loans are deferred until a future event occurs. At September 30, 2003, the amount of these loans was \$2,720,000.

11. PENDING LITIGATION:

There are legal actions pending against the Agency resulting from normal operations. The Agency's Counsel feels these actions will not have a significant impact on these financial statements.